

INDEX
TESTIMONY OF
LAWRENCE E. KITCHEN, ZOE ANNE ARRINGTON, AND BYRON G. KEEP
Witnesses for Bonneville Power Administration

SUBJECT: Targeted Adjustment Charge for Uncommitted Loads

	Page
Section 1. Introduction and Purpose of Testimony	1
Section 2. Definition and Description	1
Section 3. Application, Baseline Assumptions, and Availability of Inventory.....	2
Section 4. Method Used to Price and Apply the TACUL.....	4

1 TESTIMONY OF
2 LAWRENCE E. KITCHEN, ZOE ANNE ARRINGTON, AND BYRON G. KEEP

3 Witnesses for Bonneville Power Administration
4

5 **SUBJECT: TARGETED ADJUSTMENT CHARGE FOR UNCOMMITTED LOADS**

6 **Section 1. Introduction and Purpose of Testimony**

7 *Q. Please state your names and qualifications.*

8 A. My name is Lawrence E. Kitchen and my qualifications are contained in WP-02-Q-BPA-37.

9 A. My name is Zoe Anne Arrington and my qualifications are contained in WP-02-Q-BPA-02.

10 A. My name is Byron G. Keep and my qualifications are contained in WP-02-Q-BPA-34.

11 *Q. What is the purpose of your testimony?*

12 A The purpose of our testimony is to sponsor the Targeted Adjustment Charge for
13 Uncommitted Loads (TACUL) for adjustments to the 1996 rates that are in the 2002 Rate
14 Schedules and in Appendix D of the 2002 Wholesale Power Rates Development Study.

15 *Q. How is your testimony organized?*

16 A. The testimony is organized as follows. The purpose of the testimony is described in
17 section one. Section two defines and describes the TACUL. The third section identifies
18 which customers might be subject to the TACUL and outlines assumptions regarding
19 customer loads and available inventory; and the forth section explains the methodology
20 that will be used to price and apply the TACUL.

21 **Section 2. Definition and Description of the TACUL**

22 *Q. Please define the TACUL.*

23 A. The TACUL is a charge that is applied to an individual customer that purchases service
24 for a load that was uncommitted and not included in the Bonneville Power
25 Administration's (BPA) 1996 rate case. The TACUL rate is an adjustment to PF
26 Preference (PF-96) rate for those customers who place this uncommitted load on BPA.

1 The charge will reflect the costs BPA incurs to provide firm power requirements service
2 to these customers.

3 *Q. Please describe the purpose of the TACUL.*

4 A. The purpose of the TACUL is to recover costs BPA may incur to provide firm power
5 requirements service to those customers with loads uncommitted to BPA in the 1996 rate
6 case and whose current power sales contracts expire on or before July 31, 2001.

7 The TACUL will recover the additional cost of serving uncommitted customer
8 load returned to requirements service after December 7, 2000, through September, 2001.
9 BPA is obligated under section 5(b) of the Northwest Power Act to provide requirements
10 service to a requesting utility customer. BPA and those customers with the right to return
11 load under Amendatory Agreement No. 7 (AA7) and the 1996 contracts agreed that BPA
12 could establish a rate to apply to the service of any such customer returned load. The
13 TACUL will provide BPA revenue protection against the cost of additional power that
14 will be required to serve such load. BPA is forecasting that market prices will be above
15 BPA's PF power costs and that firm inventory will be unavailable to serve this additional
16 load. If market prices are above PF and BPA is required to serve incremental loads by
17 purchasing at market, then the TACUL would hold BPA financially harmless from
18 having to purchase at market to serve incremental loads.

19 **Section 3. Application, Baseline Assumptions, and Availability of Inventory**

20 *Q. Which customers are subject to the TACUL?*

21 A. Customers subject to the TACUL are those PF customers that currently purchase
22 requirements firm power from BPA under: (1) 1981 power sales contracts that expire on
23 or before July 31, 2001, as may be amended; and (2) AA7 to the 1981 power sales
24 contracts, or new "1996" power sales contracts where the customer provides BPA notice
25 after December 7, 1998, for requirements service for the period after December 7, 2000,
26 and prior to September 30, 2001, consistent with the terms of the customer's power sales

1 contract, for requirements service for the period prior to FY 02. Customers that
2 diversified their power supply by signing either an AA7 or a new "1996" power sales
3 contract agreed that BPA had the right to establish a rate to serve loads should these
4 customers return to firm power requirements service.

5 *Q. Will any part of these customers uncommitted loads be served at the PF rate?*

6 A. Yes. All of these loads will be charged the PF-96 rate, plus the TACUL which is an
7 adjustment charge to PF. The TACUL will be a charge that is determined individually
8 upon request by the customer.

9 *Q. What baseline will BPA assume for these customer loads?*

10 A. The baseline for determining which purchases are subject to the TACUL is the amount of
11 load BPA would have served during the corresponding months of FY 2000 under the 1981
12 contract or 1996 contract. FY 2000 was chosen because this year is most representative of
13 customer uncommitted loads. In subsequent years, customers started to return this load to
14 BPA, and in previous years, customers were "ramping up" to these levels.

15 *Q. Please explain how BPA will determine the availability of inventory to serve this load.*

16 A. BPA will determine availability of inventory to serve each request based on average
17 annual Federal system firm resource capability using critical water flows as estimated in
18 the Loads and Resources Study for the 2002 rate case, with updates if BPA determines
19 that is necessary. (See Loads and Resources Study, WP-02-E-BPA-01.) If firm power is
20 available, it will be used to serve the request and the customer will be served at PF; if
21 firm power is unavailable, the request will be served with incremental purchases and will
22 face the TACUL.

23 *Q. What is BPA's current forecast of firm power availability?*

24 A. BPA's firm power availability is based on an operating year, or the 12-month period from
25 August to July. BPA's current forecast of its firm loads in the 2002 rate case for
26 Operating Year (OY) 01 and OY 02, including Uncommitted Loads which customers

1 have notified BPA will return during OY 01 and OY 02, shows an energy deficit, based
2 on average annual average megawatt (aMW), of 337 and 178 aMW. Excluding the
3 amount of Uncommitted Loads that customers have already notified BPA will come back
4 to requirements service during this period shows an energy deficit of 265 and 136 aMW.
5 Because BPA shows an energy deficit even without the returned loads, firm inventory
6 will be unavailable to serve this load at PF without an adjustment reflecting BPA's
7 purchases to supply power for these loads. *See* Loads and Resources Study,
8 WP-02-E-BPA-01, Appendix C for documentation of the load and resource forecast for
9 these years.

10 *Q. Based on this forecast, would BPA be required to purchase power or resources to serve*
11 *uncommitted loads?*

12 A. Yes. A number of customers have given notice that they will return previously
13 uncommitted load to BPA requirements service. BPA is forecasting, on an annual
14 average basis, that this load will total approximately 72 aMW in OY 01 and 43 aMW in
15 OY 02. BPA expects to purchase to serve this load.

16 **Section 4. Method Used to Price and Apply the TACUL**

17 *Q. How will BPA price the TACUL?*

18 A. BPA proposes to price the TACUL, based on an individual customer request and the size
19 and timing of the request, by determining the cost to BPA to purchase power to meet the
20 customer request. When applied, the TACUL is a mills/kWh adjustment to the heavy
21 load hour (HLH) and light load hour (LLH) energy rates specified in the 1996 rate
22 schedules. BPA will, at BPA's option, price at BPA's cost to purchase at market, plus a
23 handling fee, or use a price index, plus a handling fee, to determine the adjustment.

24 *Q. How will BPA price at market?*

25 A. BPA will determine the cost by contracting, most likely through an outside broker, for a
26 resource to fill the specific customer request.

1 *Q. If BPA were to use a price index, what price index does BPA propose to use?*

2 A. BPA proposes to use the Dow Jones Mid-Columbia (DJ Mid-C), the final day ahead
3 California Power Exchange (PX) price at the California-Oregon Border and New York
4 Mercantile Exchange Mid-Columbia (NYMEX Mid-C) or, if NYMEX Mid-C does not
5 exist, BPA will use only two indices. The price index will be calculated as a price per
6 month based on HLH and LLH. For HLH, the index is based on the one-third weighting
7 of each of the above indices, plus a handling fee. For LLH, the weighting is based on a
8 one-half weighting of DJ Mid-C and one-half of the California PX. If the NYMEX Mid
9 Columbia contract does not exist, BPA would use a one half weighting of DJ Mid-C and
10 the California PX.

11 *Q. How will BPA make the decision to use either a price index or price through a broker?*

12 A. BPA expects that the customer will provide information which BPA will use to price the
13 purchase. BPA will use a price index only when the timing of the request is such that
14 BPA is unable to purchase in a timely manner and it is not practical to make longer term
15 purchases through a broker.

16 *Q. What costs will be included in BPA's cost of acquiring power to serve load under the*
17 *TACUL?*

18 A. Besides the direct cost of the power required to serve this load, other charges that BPA
19 may incur as a cost of acquiring the power to serve these loads will be included in the
20 price to the customer. These may include, but are not limited to, a BPA handling charge,
21 plus charges by other entities to BPA as part of purchasing this power.

22 *Q. Before applying the TACUL, will BPA use its authority to recall surplus firm power that*
23 *is being sold under extra-regional contracts to serve unanticipated loads?*

24 A. BPA determines how it will serve Pacific Southwest (PSW) extra regional contracts
25 subject to recall on an annual operating basis by considering water conditions, loads, and
26 resource availability. In meeting its contractual obligations under surplus firm power

1 contracts with PSW utilities BPA relies on excess critical period energy as it may occur
2 within the year, or market purchases and exchanges when no critical period energy is
3 available. BPA plans its market purchases to meet its total load obligation amounts,
4 including PSW loads, on an annual basis to cover periods when it will not have sufficient
5 critical period energy. Under critical water conditions power sold to serve load subject to
6 the TACUL and power sold under extra regional contracts is power purchased from the
7 market to meet total loads. Therefore, BPA would not recall surplus firm power.

8 *Q. Please explain how the pricing of the TACUL for a specific customer will be done.*

9 A. Before BPA sets the price, BPA would first like to consider information provided by the
10 customer regarding how and when to purchase. BPA will make its best attempt to use the
11 information provided to make purchases. If the customer fails to provide any information
12 to BPA by one business week prior to the start of delivery and it is not practical to
13 attempt to price through a broker, BPA will price the TACUL using the price index
14 previously described.

15 *Q. Besides the PF rate schedules, will the TACUL be applied to other rate schedules?*

16 A. No. BPA will apply the TACUL only to the 1996 PF rate schedule. A similar
17 mechanism which is an adjustment to the 2002 rates called the Targeted Adjustment
18 Charge will be applied to certain unanticipated and incremental loads during the 2002 to
19 2006 rate period. (See Arrington, *et al.*, WP-02-E-BPA-24.)

20 *Q. Does this conclude your testimony?*

21 A. Yes.